BOOK REVIEWS AND NOTICES

The Regulation of Railways. By S. O. DUNN. New York: D. Appleton & Co., 1918. Pp. x+354.

The range of topics covered in this book, and the allotment of space accorded them, furnish eloquent testimony to the changed character of our "railroad problem" since the forms were molded into which the conventional texts on the subject were poured. Written before the end of the war, it centers around the question: "What was the matter with our system of regulation before the war and what should be done to furnish a better working basis for control after the war is over?" There are nine chapters on regulation, six on government ownership, and two containing some general proposals for reform. Of the chapters on regulation, four are general in character, discussing: "What Is the Matter with Railway Regulation?"; "Functions of Government in Relation to Railways"; "Commission versus Legislative Regulation"; and "Federal versus State Regulation." The remaining five deal with public policy in regard to rates, valuation, securities, operation, and labor disputes.

In the matter of rates, the author deals solely with the question of an adequate level of rates and reasonable revenues, while the subject of discriminations is dismissed as largely settled, save for the discriminations created by the conflicts in regulation between the states and the federal government. Imagine a book on this subject which never once expounds the theory of "charging what the traffic will bear," nor enlightens the reader as to the subtle differences between "variable expenses" and those interesting "constant expenses" which also vary and which have the unusual mathematical property of remaining twice as big as the variable expenses while still remaining "constant."

Mr. Dunn avoids such technical matters even within the range of the problems he treats; indeed, he avoids them so much that, at times, the reader is hardly put in adequate touch with the real subject-matter. The book is written for the general reader rather than for the close student, and is an excellent piece of general exposition. It is, however rather the work of a temperate pro-railroad advocate than a disinterested study and analysis of railroad regulation.

While admitting the need for regulation and commending some features of it, the author pays more attention to the evils involved.

Chief of these is the evil of inadequate rates, together with discriminations imposed by conflicting policies of state and federal commissions. Unwise control of capitalization comes next, the trouble being an inevitable result of separate control exercised by the several states over an interstate industry. It appears that in some cases the strictest state can veto the permission given by others for the issue of securities, while in other cases the laxity of one state may permit abuses that virtually nullify the efforts of more conservative states to safeguard the financial operations of properties within their borders. However, the author does not give enough detail to enable the reader to see how and why the system produces such opposite results. In the control of operation there are useless discrepancies between different states and duplications of work between the states and the federal government, but the chief evils are the rigid character of legislative rulings and the fact that some are designed to make jobs rather than to safeguard the public interest. In general, commission regulation is preferred to legislative, because more adaptable, more expert, and less exposed to improper motives or undue political pressure, and the federal commission is preferred to those of the states.

As regards valuation, the author considers it irrelevant to the question whether rates are high enough to enable the roads to raise needed capital. However, he discusses the central points in the theory of valuation, advocating cost of reproduction with concessions to the doctrine of going value based on earning power. The general treatment of the theory of valuation and fair return is somewhat disappointing, and appears not to reach bedrock. For example, if the standard of reasonable rates be the ability to market securities, this depends on the policy followed in the control of security issues, as well as on the rates themselves. Difficulty in raising capital may arise from a bad system of security-issuance rather than from inadequate rates. As for the American situation in the years preceding the war, earnings made a better showing than during most of the previous history of the roads, and the logical inference is that the difficulty of raising capital had other causes than inadequate earnings alone. With the percentage of bonds in the capitalization unduly swollen, as it admittedly is, the plea of making more bonds salable call for unreasonably large returns on the attenuated equities of present stockholders. The raising of new capital could, however, be harmonized with various rates of return to previous security-holders on various valuations of their property, by adjusting the price at which new securities are to be issued. This would often

involve selling stocks and bonds at a discount, a thing which Mr. Dunn himself says should be permitted. If the control of security issues were co-ordinated in this way with the control of rates, the requirement of raising new capital need not be incompatible with an inquiry into the fair value of the properties for purposes of rate-fixing.

Another thing which the author quite rightly stresses is the inevitable gap between rich and poor roads in semi-competitive relations with each other, a matter which has not been adequately treated in previous books on the subject. This fact appears in various guises. The discrepancy is seen as a desirable thing, because it furnishes a differential reward to good management, which tends to preserve efficiency even under regulation—this in the section where the efficiency of government ownership is being attacked. It appears again as a necessary evil compelling the allowance of "going value" above the actual investment. And finally it disappears entirely in the author's plan for solving this latter difficulty through huge sectional mergers, each of which is to include all the roads in a large division of the country. There would seem to be some discrepancy between the various parts of the author's argument on this point in that, if his proposed plan were adopted, this particular argument for "going value" and for the superior efficiency of private enterprise would no longer hold. This would not be true, however, of the scheme of combining strong and weak lines into systems that should still compete with each other. Such a plan might diminish the difference between the stronger and the weaker units, but could never eliminate it entirely.

Mr. Dunn's various proposals for dealing with the problem will probably be met with varying favor. There is to be a series of regional combinations of roads under federal incorporation, with the Interstate Commerce Commission exercising control over all rates, and also whatever control can be exercised over wages and labor disputes. The public should have minority representation on the managing boards of the companies (why not also give labor minority representation?), and there are to be either separate regional commissions, or else advisory councils after the fashion of Germany, Austria-Hungary, and France. A minimum rate of earnings, say 5 per cent, is to be guaranteed, and profits above this minimum divided with the government. Probably the proposal for a guaranteed return, together with the completeness of the regional consolidations proposed, are the most dangerous features of the plan, but the argument as a whole is well worthy of consideration.

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